

Message Text

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AMCONSUL RIO DE JANEIRO

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FROM COMMERCIAL COUNSELOR

E.O. 11652: N/A
TAGS: ETEL, BEXP, BR
SUBJECT: GOB TELECOMMUNICATIONS POLICY

REF: BRASILIA 5719
STATE 191518

1. THE DECREE SIGNED BY COMMUNICATIONS MINISTER QUANDT DE OLIVEIRA ON JUNE 23 APPEARS TO BE PRIMARILY DESIGNED TO BRING UNDER THE CONTROL OF BRAZILIAN NATIONALS THE TECHNOLOGY USED IN THE PRODUCTION OF BASIC TELECOMMUNICATIONS EQUIPMENT. THE DECREE DOES REAFFIRM THE IMPORT SUBSTITUTION POLICY AND THE PRINCIPLE THAT IMPORTS BY STATE ENTERPRISE WILL BE PERMITTED ONLY IN THE ABSENCE OF A "NATIONAL SIMILAR". HOWEVER, THE EMPHASIS SEEMS TO BE ON THE ESTABLISHMENT AND STRENGTHENING OF BRAZILIAN FIRMS, WHICH ARE DEFINED AS COMPANIES A MAJORITY OF WHOSE VOTING STOCK IS HELD BY BRAZILIAN CITIZENS AND WHICH HAVE NO CONTRACTUAL OR OTHER ARRANGEMENTS GIVING EFFECTIVE CONTROL TO FOREIGNERS. THUS THE MOST IMPORTANT EFFECT OF THE NEW DECREE IS LIKELY TO BE ON US AND OTHER FOREIGN FIRMS MANUFACTURING TELECOMMUNICATIONS EQUIPMENT IN BRAZIL, RATHER THAN ON FOREIGN EXPORTERS.

2. THE GOB BEGAN TO IMPLEMENT THE NEW TELECOMMUNICATIONS POLICY
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WELL BEFORE THE JUNE 23, 1978 DECREE. IN MAY 1977 TELEBRAS ISSUED AN "INDUSTRIAL STANDARD" PROVIDING THAT TEN SPECIFIED ITEMS OF TELEPHONE EQUIPMENT COULD BE PURCHASED BY FIRMS OF THE TELEBRAS GROUP ONLY FROM SUPPLYING FIRMS WHICH ARE 100 PER CENT BRAZILIAN CONTROLLED. RELIABLE ELETRICA DO BRASIL, WHICH IS OWNED HALF BY THE RELIABLE ELECTRIC COMPANY AND HALF BY PHELPS DODGE, TRIED TO ACCOMMODATE TO THIS SITUATION BY ENTERING A JOINT VENTURE IN

WHICH THE BRAZILIAN PARTNER WOULD HAVE 100 PERCENT OF THE VOTING STOCK WHILE RELIABLE WOULD HOLD PREFERRED STOCK AND CONTROL OF THE TECHNOLOGY, BUT THIS ARRANGEMENT WAS NOT APPROVED BY THE MINISTRY OF COMMUNICATIONS. AS A RESULT, RELIABLE AND PHELPS DODGE ARE THINKING OF SELLING THEIR BRAZILIAN SUBSIDIARY.

3. THE NEW POLICY WAS APPLIED AGAIN EARLIER THIS YEAR, WHEN TELEBRAS OPENED A COMPETITION TO SELECT FIRMS TO PRODUCE TELEPHONE EXCHANGES WITH STORED PROGRAM CONTROL AND ANNOUNCED THAT THE IDEAL WOULD BE FOR THE WINNING FIRM OR FIRMS TO BE 100 PER CENT BRAZILIAN OWNED. IN JUNE TELEBRAS ANNOUNCED THAT ERICSSON WOULD PRODUCE THE EXCHANGERS FOR SAO PAULO AND ITT THE EXCHANGERS FOR RIO DE JANEIRO, PROVIDED BOTH FIRMS SET UP JOINT-VENTURES IN WHICH THE BRAZILIAN PARTNERS HOLD AT LEAST 51 PER CENT OF THIS STOCK.

4. THE NEW POLICY WILL AFFECT THE IMPORT MARKET ONLY TO THE EXTENT THAT IT SUCCEEDS IN STIMULATING THE PRODUCTION IN BRAZIL OF PRODUCTS NOT NOW MADE HERE. THE EMPHASIS OF THE POLICY IS-- AND WILL PROBABLY CONTINUE TO BE--ON EQUIPMENT BASIC TO THE TELEPHONE SYSTEM. THE DEPARTMENT WILL NOTE THAT THE MARKET RESEARCH STUDY ON COMMUNICATIONS EQUIPMENT AND SYSTEMS PREPARED IN MARCH 1978 BY RICHARD LINDSEY OF THE SAO PAULO TRADE CENTER ASSIGNED A LOW SALES POTENTIAL TO US EQUIPMENT FOR CENTRAL TELEPHONE EXCHANGES. THE ITEMS ASSIGNED "VERY HIGH" OR "HIGH" SALES POTENTIAL IN THAT STUDY, SUCH AS MICROWAVE EQUIPMENT, TEST UNCLASSIFIED

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EQUIPMENT, CLOSED-CIRCUIT TV EQUIPMENTS AND CERTAIN TYPES OF SUBSCRIBER EQUIPMENT, ARE STILL GOOD PROSPECTS FOR SALE IN BRAZIL. THE OUTLOOK FOR SALE OF US PRODUCTS REMAINS BASICALLY UNCHANGED BY THE NEW DECREE AND THE PROPOSED US TRADE CENTER EXHIBIT SHOULD BE SUCCESSFUL, PROVIDED THE SELECTION OF PRODUCTS TO BE EXHIBITED TAKES CAREFUL ACCOUNT OF THE PRIORITIES SET FORTH ON PP. 28 - 32 OF THE MARKET RESEARCH STUDY. IN ORDER TO AVOID ANY MISUNDERSTANDINGS, IT WOULD BE DESIRABLE TO GIVE EACH EXHIBITOR A COPY OF THE FULL STUDY BEFORE THE SHOW TAKES PLACE. POVENMIRE

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